

AUDITING PROCEDURES REPORT

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Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Charlevoix		County Charlevoix
Audit Date 03/31/04	Opinion Date 07/22/04	Date Accountant Report Submitted to State: 11/16/04		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the **Governmental Accounting Standards Board (GASB)** and the Uniform *Reporting Format* for Financial Statements for Counties and Local *Units* of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government* in Michigan as revised.
2. We are certified public accountants registered to practice in Michigan.

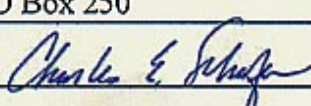
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ yes ☐ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Rehmann Robson		Charles E. Schafer, CPA	
Street Address 902 S. Huron St., PO Box 250	City Cheboygan	State MI	ZIP 49721
Accountant Signature 			



July 22, 2004

City Council
City of Charlevoix
Charlevoix, Michigan

We have audited the financial statements of the City of Charlevoix for the year ended March 31, 2004, and have issued our report thereon dated July 22, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 16, 2004 our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of City of Charlevoix. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Charlevoix's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

July 22, 2004

City Council
City of Charlevoix
Charlevoix, MI 49720

Through our role in performing financial statement services for the past several years, we have become familiar with your systems, operations and management team. As we work with our clients, we strive to provide direction and constructive feedback to help facilitate their success. The better we get to know you and your objectives, the more we can offer in terms of proactive advice.

In planning and performing our audit of the financial statements of the **City of Charlevoix, Michigan** (the "City") for the year ended March 31, 2004, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during the above-mentioned engagement, we became aware of opportunities for strengthening controls and improving operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated July 22, 2004 on the financial statements of City.

We have already discussed these comments with the City Manager and Treasurer, and we would be pleased to discuss them in further detail at your convenience.

If we can be of assistance, we hope you will view us as an integral part of your team.

Best wishes for a successful 2004-2005.

Encl.1

DISASTER RECOVERY PLAN

Disaster recovery plans are intended to minimize the extent of interruption to normal business operations, establish a means for orderly recovery of programs and data and instruct personnel how to handle emergency situations. Although the City has plans in place for specific areas of City operation, including public safety and the airport, we recommend creating a plan that addresses operations City-wide. Since City operations have moved into its permanent location allowing for centralization of file and data storage, the preparation and routine updating of this plan should be simplified.

CONFLICT OF INTEREST POLICY

In the event that a member of the City Council is employed by a corporation or business, or has financial interest in a corporation or business which furnishes goods or services to the City, the Council member shall declare his/her interests and refrain from debating or voting upon the question of contracting with the company. Although, we believe the City Council is appropriately handling such matters, we recommend that a formal policy be adopted that explains the process; therefore helping to mitigate any unwarranted criticism by the community.

CONCLUSION

It has been a pleasure to provide audit services to the *City of Charlevoix, Michigan*. Management was prepared for the audit, providing us with a reasonably adjusted trial balance and all supporting documents requested. Thank you for providing all requested information.

We appreciate your business! Thank you.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Charlevoix are described in Note 1 to the financial statements. We noted no transactions entered into by City of Charlevoix during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: the allowance for depreciation of certain fixed assets and the liability for compensated absences.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Charlevoix's financial reporting process (that is, cause future financial statements to be materially misstated.) In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Charlevoix, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Charlevoix's financial reporting process.

In addition the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as City of Charlevoix’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the City Council and management of City of Charlevoix and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, reading "Lehmann Johnson". The signature is written in black ink and is positioned below the "Very truly yours," text.

CITY OF CHARLEVOIX, MICHIGAN

FINANCIAL STATEMENTS

**For the Fiscal Year Ended
March 31, 2004**

CITY OF CHARLEVOIX, MICHIGAN

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CITY OF CHARLEVOIX, MICHIGAN

List of Elected and Appointed Officials For the Fiscal Year Ended March 31, 2004

Elected Officials

Mayor	Gabe Campbell
Mayor Pro Tem	Robert Timms
Council Member	Bill Bellows
Council Member	Karen Campbell
Council Member	Sherm Chamberlain
Council Member	Shirley Gibson
Council Member	Bill Haggard
Clerk	Elizabeth Gooch

Appointed Officials

Manager	Michael R. Wiesner
Attorney	James Young
Police Chief	Dennis Halverson
Fire & Ambulance	Paul Ivan
Electric & Water Superintendent	Ed Whitley
Treasurer	Richard Brandi
Street Superintendent	John Martin
Wastewater/Water Superintendent	James Caldwell
Harbormaster	Hal Evans
Planning Director	Gerry Harsch
Zoning Administrator	Dianne Manore
Recreation Director	Dwight Boss
Director of Golf	Tom Heid
Airport Manager	Karyn Brooks



INDEPENDENT AUDITORS' REPORT

July 22, 2004

The Honorable Mayor and
Members of the City Council
City of Charlevoix
Charlevoix County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Charlevoix, Michigan** (the "City"), as of and for the year ended March 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of March 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3-13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Management's Discussion and Analysis

As management of the **City of Charlevoix, Michigan** (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended March 31, 2004.

Financial Highlights

- The assets of the City (primary government) exceeded its liabilities at the close of the most recent fiscal year by \$45,031,892 (*net assets*). Of this amount, \$5,791,712 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The primary government's total net assets increased by \$78,868.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,382,735, a decrease of \$718,516 in comparison with the prior year. Approximately 70 percent of this total amount, or \$970,515 is *available for spending* at the government's discretion (*unreserved, undesignated fund balance*).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$318,795 or 12 percent of total General Fund expenditures and transfers out.
- The primary governments total debt decreased by \$308,917 due to principal payments made during the year. There were no new primary government debt issues.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include legislative, general government, public safety, public works, health and welfare, and recreation and culture. The business-type activities of the City include electric, sewer, water and marina operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate authority – the Downtown Development Authority – for which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 14-16 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 14 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Streets, Local Streets, City Hall Improvements and Infrastructure Improvements funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its General and Special Revenue Funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 17-20 and 27-31 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its electric, sewage disposal, water distribution and marina operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its motor pool and employee fringe benefits. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements. The City also uses an internal service fund to account for DPW site maintenance. Services provided by this fund predominantly benefit business-type functions and it has been combined with *business-type activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, sewage disposal and water operations, each of which are considered to be major funds of the City, as well as the Marina fund, which is a nonmajor fund.

The basic proprietary fund financial statements can be found on pages 21-26 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 32 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33-53 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds is presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 54-59 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Charlevoix, assets exceeded liabilities by \$45,031,892 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (87 percent) reflects its investment in capital assets (e.g., land, infrastructure, buildings, equipment, and vehicles), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (12 percent) may be used to meet the government's ongoing obligations to citizens and creditors.

**City of Charlevoix - Primary Government
Condensed Statement of Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Assets						
Cash and other assets	\$ 2,038,265	\$ 2,418,416	\$ 5,081,534	\$ 6,226,917	\$ 7,119,799	\$ 8,645,333
Capital assets not being depreciated	18,699,344	16,953,529	609,468	609,468	19,308,812	17,562,997
Capital assets, net of accumulated depreciation	<u>5,618,205</u>	<u>5,517,528</u>	<u>14,893,592</u>	<u>15,068,842</u>	<u>20,511,797</u>	<u>20,586,370</u>
Total assets	<u>26,355,814</u>	<u>24,889,473</u>	<u>20,584,594</u>	<u>21,905,227</u>	<u>46,940,408</u>	<u>46,794,700</u>
Liabilities						
Current and other liabilities	426,049	314,038	838,001	685,878	1,264,050	999,916
Long-term debt, net of current portion	<u>294,466</u>	<u>146,398</u>	<u>350,000</u>	<u>695,362</u>	<u>644,466</u>	<u>841,760</u>
Total liabilities	<u>720,515</u>	<u>460,436</u>	<u>1,188,001</u>	<u>1,381,240</u>	<u>1,908,516</u>	<u>1,841,676</u>
Net assets						
Invested in capital assets, net of related debt	24,162,100	22,306,691	14,803,060	14,678,310	38,965,160	36,985,001
Restricted	275,020	374,970	-	-	275,020	374,970
Unrestricted	<u>1,198,179</u>	<u>1,747,376</u>	<u>4,593,533</u>	<u>5,845,677</u>	<u>5,659,889</u>	<u>7,593,053</u>
Total net assets	<u>\$ 25,635,299</u>	<u>\$24,429,037</u>	<u>\$19,396,593</u>	<u>\$20,523,987</u>	<u>\$ 45,031,892</u>	<u>\$ 44,953,024</u>

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets increased by \$78,868 during the current fiscal year. There was a significant transfer of net assets from the business-type activities to the governmental activities of approximately \$1.2 million related to transfers between funds.

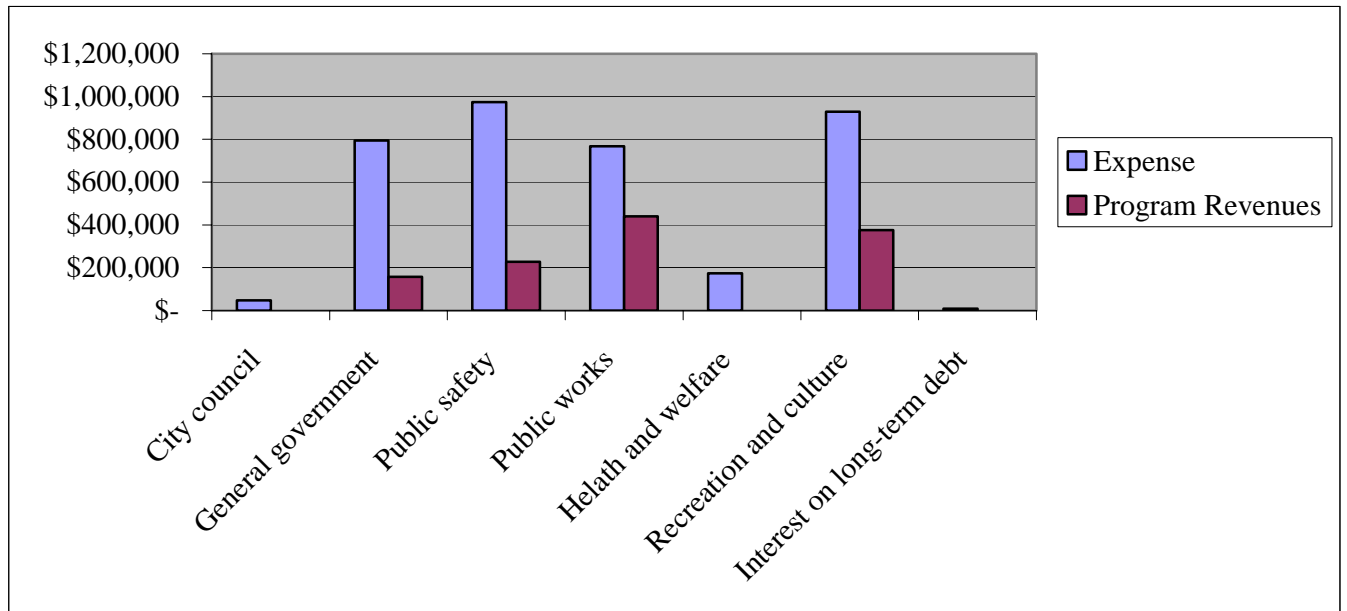
City of Charlevoix - Primary Government
Condensed Statement of Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues						
Program revenues						
Charges for services	\$ 874,912	\$ 1,025,829	\$ 6,923,803	\$ 6,533,329	\$ 7,798,715	\$ 7,559,158
Operating grants and contributions	325,224	385,358	-	-	325,224	385,358
Capital grants and contributions	-	387,287	-	-	-	387,287
General revenues						
Property taxes	2,127,293	2,022,112	-	-	2,127,293	2,022,112
Grants and contributions not restricted to specific programs	339,120	316,189	-	-	339,120	316,189
Unrestricted interest income	23,847	42,953	73,882	94,953	97,729	137,906
Loss on sale of capital assets	(2,700)	(19,629)	-	-	(2,700)	(19,629)
Total revenues	<u>3,687,696</u>	<u>4,160,099</u>	<u>6,997,685</u>	<u>6,628,282</u>	<u>10,685,381</u>	<u>10,788,381</u>
Expenses						
Legislative	48,338	45,993	-	-	48,338	45,993
General government	793,983	594,602	-	-	793,983	594,602
Public safety	974,037	927,596	-	-	974,037	927,596
Public works	767,759	752,087	-	-	767,759	752,087
Health and welfare	173,361	167,915	-	-	173,361	167,915
Recreation and culture	929,511	1,032,772	-	-	929,511	1,032,772
Interest on long-term debt	8,945	9,482	-	-	8,945	9,482
Electric	-	-	5,009,160	4,953,192	5,009,160	4,953,192
Sewer	-	-	961,849	994,685	961,849	994,685
Water	-	-	786,164	750,608	786,164	750,608
Marina	-	-	153,406	-	153,406	-
Total expenses	<u>3,695,934</u>	<u>3,530,447</u>	<u>6,910,579</u>	<u>6,698,485</u>	<u>10,606,513</u>	<u>10,228,932</u>
Increase (decrease) in net assets before transfers	(8,238)	629,652	87,106	(70,203)	78,868	559,449
Transfers	<u>1,214,500</u>	<u>(114,278)</u>	<u>(1,214,500)</u>	<u>114,278</u>	-	-
Change in net assets	1,206,262	515,374	(1,127,394)	44,075	78,868	559,449
Net assets – beginning of year (as restated)	<u>24,429,037</u>	<u>23,913,663</u>	<u>20,523,987</u>	<u>20,479,912</u>	<u>44,953,024</u>	<u>44,393,575</u>
Net assets – end of year	<u>\$25,635,299</u>	<u>\$24,429,037</u>	<u>\$19,396,593</u>	<u>\$20,523,987</u>	<u>\$45,031,892</u>	<u>\$ 44,953,024</u>

Governmental activities. Governmental activities increased the City's net assets by \$1,206,262. Key elements of this increase are as follows:

- Property taxes increased by approximately \$105,000 (5.2 percent) during the year. Most of this increase is the product of increased taxable values and residential growth.
- The City Hall Improvements Capital Projects Fund received transfers of approximately \$1,200,000 from the DPW site proprietary funds to partially fund the City Hall renovation project.

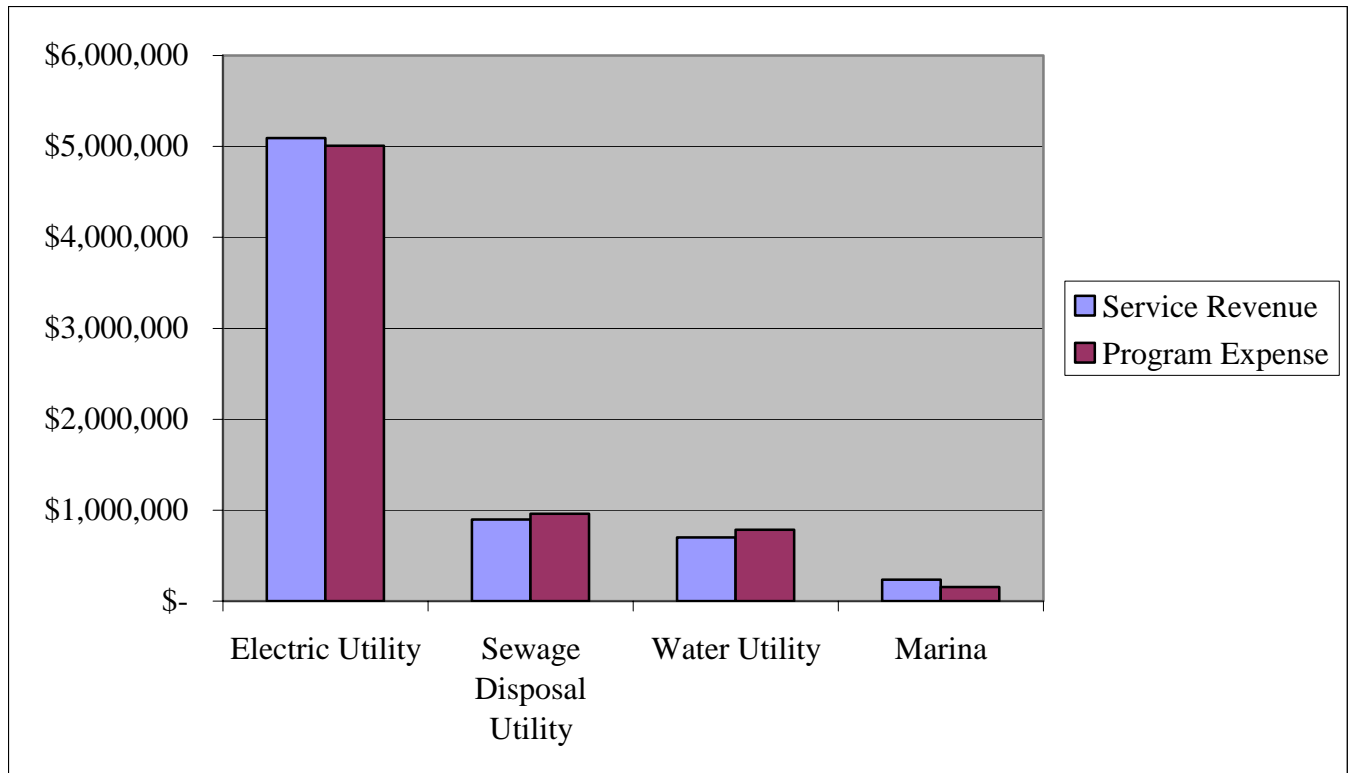
Expenses and Program Revenues – Governmental Activities



Business-type activities. Business-type activities decreased the City's net assets by \$1,127,394. Key elements of this change are as follows:

- Transfers to governmental activities increased by approximately \$1,100,000 related to one time transfers to the City Hall Improvement Capital Projects Fund.
- The Marina Fund net assets increased by approximately \$83,000 in 2004. In prior years, the Marina Fund activity had been reported as part of the General Fund.

Expenses and Program Revenues - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,382,735, a decrease of \$718,516 in comparison with the prior year. All but \$275,020 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for Perpetual Care.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$440,295 a portion of this amount (\$121,500), has been designated for use in the subsequent year's budget. As a measure of the General Fund's liquidity, it may be useful to compare unreserved, undesignated fund balance to total fund expenditures and transfers out. Unreserved, undesignated fund balance represents 12 percent of total General Fund expenditures and transfers out.

The fund balance of the City's General Fund decreased by \$7,360 during the current fiscal year, compared to a budgeted increase of \$13,844. Many factors contributed to this change during the year including higher than expected costs in the public safety and recreation functions. However these increases were partially offset by increased revenues in the corresponding functions.

The Major Streets Fund has a total fund balance of \$48,503 of which \$5,600 was designated for subsequent year's expenditures. The Major Streets Fund's fund balance decreased by \$14,392. Original budget estimates anticipated a state funded project that was not begun during the current year.

The Local Streets Fund had an increase in fund balance for the current year of \$39,783, to an ending total of \$83,320. This increase, compared to a budgeted increase of \$5,568 was due in most part to an increase in state funding and the delay of work on several projects that were budgeted to be completed during the year.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Electric Utility, Sewage Disposal Utility, Water Utility and Marina Funds at the end of the year amounted to \$3,785,697 and the investment in capital assets net of related debt was \$14,650,861. The Electric Utility Fund had a increase in net assets for the year of \$62,544, the Sewage Disposal Utility Fund a decrease of \$82,281, the Water Utility Fund a decrease of \$53,047, whereas the Marina Fund had an increase of \$82,909. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

During the year, General Fund revenues were inline with budgetary estimates while expenditures were slightly higher than anticipated. Combined with actual transfers in that exceeded budget, this resulted in an actual decrease in fund balance of \$7,360, compared to a budgeted increase of \$13,844. The actual decrease was smaller than the original budgeted decrease of \$37,900. The general government and health and welfare functions had actual amounts that were less than the amended budget; all other functions exceeded the amended budget. These variances usually occur due to the timing of budget approval and the requirement of the City Charter that ordinances do not take effect until one month after passage, requiring estimates to be made in late January or early February for the year ending March 31.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of March 31, 2004, amounted to \$39,820,609 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings and systems, equipment, vehicles and infrastructures including park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 5.35 percent .

Major capital asset events during the current fiscal year included the following:

- The beginning of the city hall renovation project, reported as construction in progress at year end of approximately \$1,745,000.
- Electrical underground line construction of approximately \$513,000.
- Various land improvements at parks throughout the City of \$65,000 and at the airport of \$90,000.

City of Charlevoix - Primary Government Capital Assets (net of depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$16,953,529	\$16,953,529	\$ 609,468	\$ 609,468	\$17,562,997	\$17,562,997
Construction-						
in-progress	1,745,815	-	-	-	1,745,815	-
Land improvements	2,017,887	1,954,392	591,760	577,905	2,609,647	2,532,297
Infrastructure	345,402	115,154	-	-	345,402	115,154
Buildings and systems	2,217,315	2,331,483	14,048,374	14,261,949	16,265,689	16,593,432
Equipment	441,171	483,412	253,458	228,988	694,629	712,400
Vehicles	<u>596,430</u>	<u>633,087</u>	<u>-</u>	<u>-</u>	<u>596,430</u>	<u>633,087</u>
Total	<u>\$24,317,549</u>	<u>\$22,471,057</u>	<u>\$15,503,060</u>	<u>\$15,678,310</u>	<u>\$39,820,609</u>	<u>\$38,149,367</u>

Additional information on the City's capital assets can be found in Note III. C on pages 41-44 of this report.

Long-term debt. At the end of the current fiscal year, the City (primary government) had total bonded debt and installment purchase agreements outstanding of \$855,449. Of this amount, \$155,449 comprises debt backed by the full faith and credit of the government. The remainder of the City's primary government debt of \$700,000 represents bonds secured solely by specified revenue sources (i.e., revenue bonds). The City has also pledged its full faith and credit to the Downtown Development Authority Component Unit bonded and installment purchase debt agreements of \$2,490,000 and \$1,435,431 respectively.

**City of Charlevoix
Outstanding Debt**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
General obligation bonds	\$ -	\$ -	\$ 2,490,000
Installment purchase agreements	155,449	-	1,435,431
Revenue bonds	<u>-</u>	<u>700,000</u>	<u>-</u>
Total	<u>\$ 155,449</u>	<u>\$ 700,000</u>	<u>\$ 3,925,431</u>

The City's and Component Unit's total debt increased by \$239,038. There were two new Downtown Development Authority (DDA) debt issues during the current fiscal year; a \$635,000 Act 99 installment purchase contract and a \$2,290,000 current refunding bond.

The City has a "BBB" rating from Standard & Poor's for its Electric Revenue Bond issue and a "AAA" rating from Moody's for the LTGO Bond issue for the DDA.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$18,731,719, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note III.F on pages 45-47 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2004-05 fiscal year:

- The unemployment rate for the City is currently 7.2 %, which is an increase from a rate of 6.3% a year ago. This compares to the state's average unemployment rate of 7.2% and the national average rate of 6.4%.
- The tax collection rate for the year remained at 96.8% of billed taxes. This rate has remained virtually unchanged for the last 3 years. The County tax revolving fund reimburses the City for delinquent real property taxes in May each year following the March settlement.
- An increase of 16% in health care costs were factored in to the Employee Fringe Benefit (EFB) rate applied to all funds to maintain a break-even in the EFB.

- An additional revenue reduction of 3% of State Revenue Sharing monies is factored into the budget. An additional millage of .49 mills was levied to offset the cost of refuse pickup, leaf and brush collection and composting operations in attempt to offset some of the State Revenue Sharing reductions and inflationary increases in costs.
- The police labor contract expired March 31, 2004. A new contract is in negotiations and back pay is an issue. The 2004-05 Budget assumes an increase in wages to account for anticipated wage increases for the eight employees.
- Sewer rates increased 5.5% and water rates increased 3% to offset projected losses in the respective business type funds.

During the current fiscal year, unreserved fund balance in the General Fund decreased slightly to \$440,295. The City has appropriated \$121,500 of this amount for spending in the 2004-05 fiscal year budgets. Such appropriations are intended to finance one-time capital expenditures, which are being supplemented by infrastructure dollars.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, 210 State Street, Charlevoix, Michigan 49720 or via email chxtreas@nmo.net or by visiting our website at www.cityofcharlevoix.org for additional supplemental budgetary information.

CITY OF CHARLEVOIX, MICHIGAN

STATEMENT OF NET ASSETS

MARCH 31, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,884,914	\$ 1,854,266	\$ 3,739,180	\$ 590,143
Investments	418,249	286,037	704,286	-
Receivables	280,259	975,316	1,255,575	18,927
Internal balances	(547,721)	547,721	-	-
Other assets	2,564	395,728	398,292	45,193
Restricted cash	-	55,904	55,904	-
Restricted investments	-	966,562	966,562	-
Capital assets not being depreciated	18,699,344	609,468	19,308,812	1,413,413
Capital assets, net of depreciaton	5,618,205	14,893,592	20,511,797	4,663,350
Total assets	26,355,814	20,584,594	46,940,408	6,731,026
Liabilities				
Accounts payable	368,560	465,095	833,655	19,459
Accrued liabilities	48,072	22,906	70,978	16,595
Noncurrent liabilities				
Long term debt due within one year	9,417	350,000	359,417	242,000
Long term debt due in more than one year	294,466	350,000	644,466	3,683,431
Total liabilities	720,515	1,188,001	1,908,516	3,961,485
Net assets				
Invested in capital assets, net of related debt	24,162,100	14,803,060	38,965,160	2,151,332
Restricted for				
Nonexpendable perpetual care	275,020	-	275,020	-
Unrestricted	1,198,179	4,593,533	5,791,712	618,209
Total net assets	\$ 25,635,299	\$ 19,396,593	\$ 45,031,892	\$ 2,769,541

The accompanying notes are an integral part of these financial statements.

CITY OF CHARLEVOIX, MICHIGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MARCH 31, 2004

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary government				
Governmental activities				
Legislative	\$ 48,338	\$ -	\$ -	\$ (48,338)
General government	793,983	155,471	1,248	(637,264)
Public safety	974,037	226,259	1,831	(745,947)
Public works	767,759	130,282	309,284	(328,193)
Health and welfare	173,361	-	-	(173,361)
Recreation and culture	929,511	362,900	12,861	(553,750)
Interest on long-term debt	8,945	-	-	(8,945)
Total governmental activities	3,695,934	874,912	325,224	(2,495,798)
Business-type activities				
Electric	5,009,160	5,092,861	-	83,701
Sewage disposal	961,849	895,931	-	(65,918)
Water	786,164	699,988	-	(86,176)
Marina	153,406	235,023	-	81,617
Total business-type activities	6,910,579	6,923,803	-	13,224
Total primary government	\$ 10,606,513	\$ 7,798,715	\$ 325,224	\$ (2,482,574)
Component unit				
Downtown Development Authority	\$ 541,819	\$ 38,452	\$ -	\$ (503,367)

Continued...

CITY OF CHARLEVOIX, MICHIGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MARCH 31, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (2,495,798)	\$ 13,224	\$ (2,482,574)	\$ (503,367)
General revenues				
Property taxes	2,127,293	-	2,127,293	716,565
Grants and contributions not restricted to specific programs	339,120	-	339,120	-
Unrestricted investment earnings	23,847	73,882	97,729	6,265
Loss on sale of capital assets	(2,700)	-	(2,700)	-
Transfers - internal activities	1,214,500	(1,214,500)	-	-
Total general revenues, contributions and transfers	3,702,060	(1,140,618)	2,561,442	722,830
Changes in net assets	1,206,262	(1,127,394)	78,868	219,463
Net assets, beginning of year, as restated	24,429,037	20,523,987	44,953,024	2,550,078
Net assets, end of year	\$ 25,635,299	\$ 19,396,593	\$ 45,031,892	\$ 2,769,541
				Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF CHARLEVOIX, MICHIGAN

**BALANCE SHEET
GOVERNMENTAL FUNDS**

MARCH 31, 2004

	General	Major Streets	Local Streets
ASSETS			
Cash and cash equivalents	\$ 174,112	\$ -	\$ 45,101
Investments	190,000	4,000	26,000
Accounts receivable	43,647	-	-
Taxes receivable	51,804	-	-
Interest receivable	2,325	48	310
Due from other funds	-	-	-
Due from other governments	32,213	62,715	13,648
Total assets	\$ 494,101	\$ 66,763	\$ 85,059
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 31,936	\$ 8,121	\$ 296
Accrued expenses	21,870	2,946	1,443
Due to other funds	-	7,193	-
Advance from other funds	-	-	-
Total liabilities	53,806	18,260	1,739
Fund balances (deficits)			
Reserved			
Perpetual care	-	-	-
Unreserved			
Designated for subsequent year's expenditures	121,500	5,600	10,100
Undesignated	318,795	42,903	73,220
Undesignated - reported in non-major			
Special Revenue Fund	-	-	-
Capital Projects Funds	-	-	-
Total fund balances (deficits)	440,295	48,503	83,320
Total liabilities and fund balances	\$ 494,101	\$ 66,763	\$ 85,059

City Hall Improvements	Infrastructure Improvements	Other Governmental Funds	Total Governmental Funds
\$ 755,815	\$ 192,726	\$ 491,321	\$ 1,659,075
-	-	147,913	367,913
-	-	13,068	56,715
-	16,352	-	68,156
-	-	1,864	4,547
-	-	75,000	75,000
-	-	39,213	147,789
\$ 755,815	\$ 209,078	\$ 768,379	\$ 2,379,195

\$ 72,495	\$ 223,031	\$ 2,476	\$ 338,355
844	-	982	28,085
-	75,000	43,827	126,020
504,000	-	-	504,000
577,339	298,031	47,285	996,460

-	-	275,020	275,020
-	-	-	137,200
178,476	(88,953)	-	524,441
-	-	20,164	20,164
-	-	425,910	425,910
178,476	(88,953)	721,094	1,382,735
\$ 755,815	\$ 209,078	\$ 768,379	\$ 2,379,195

Continued...

CITY OF CHARLEVOIX, MICHIGAN

BALANCE SHEET GOVERNMENTAL FUNDS

MARCH 31, 2004

Reconciliation of fund balances on the balance sheet for governmental funds to net assets of governmental activities on the statement of net assets

Fund balances - total governmental funds	\$ 1,382,735
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Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.

Add - capital assets	28,066,021
Deduct - accumulated depreciation	(4,414,069)

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in the internal service funds	753,122
Add - portion of internal service funds net operating income attributed to business-type funds	7,299

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Deduct - installment contracts	(155,449)
Deduct - accrued interest on bonds payable	(4,360)

Net assets of governmental activities	<u>\$ 25,635,299</u>
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Concluded

CITY OF CHARLEVOIX, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED MARCH 31, 2004

	General	Major Streets	Local Streets
Revenues			
Taxes	\$ 1,577,749	\$ -	\$ -
State revenues	326,892	233,586	76,946
Licenses and permits	10,555	-	-
Charges for services	593,374	-	-
Fines and forfeits	25,086	-	-
Interest	6,119	405	780
Rents and royalties	92,855	-	-
Other revenues	14,899	-	-
Total revenues	2,647,529	233,991	77,726
Expenditures			
Current			
Legislative	47,817	-	-
General government	340,664	-	-
Public safety	917,941	-	-
Public works	196,593	500,073	143,651
Health and welfare	171,463	-	-
Recreation and culture	927,765	-	-
Other expenditures	46,638	-	-
Debt service			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	2,648,881	500,073	143,651
Revenues over (under) expenditures	(1,352)	(266,082)	(65,925)
Other financing sources (uses)			
Transfers in	100,553	251,690	105,708
Transfers out	(106,561)	-	-
Total other financing sources (uses)	(6,008)	251,690	105,708
Net change in fund balances	(7,360)	(14,392)	39,783
Fund balances, beginning of year	447,655	62,895	43,537
Fund balances (deficits), end of year	\$ 440,295	\$ 48,503	\$ 83,320

City Hall Improvements	Infrastructure Improvements	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 549,544	\$ -	\$ 2,127,293
-	-	-	637,424
-	-	-	10,555
-	-	101,846	695,220
-	-	-	25,086
4,148	1,939	8,136	21,527
-	-	44,737	137,592
-	-	12,861	27,760
4,148	551,483	167,580	3,682,457

-	-	-	47,817
1,743,377	363,669	-	2,447,710
-	-	-	917,941
-	-	202,298	1,042,615
-	-	-	171,463
-	-	-	927,765
-	-	-	46,638
-	-	8,917	8,917
-	-	9,246	9,246
1,743,377	363,669	220,461	5,620,112
(1,739,229)	187,814	(52,881)	(1,937,655)

1,355,200	-	25,500	1,838,651
-	(493,351)	(19,600)	(619,512)
1,355,200	(493,351)	5,900	1,219,139
(384,029)	(305,537)	(46,981)	(718,516)
562,505	216,584	768,075	2,101,251
\$ 178,476	\$ (88,953)	\$ 721,094	\$ 1,382,735

Continued...

CITY OF CHARLEVOIX, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED MARCH 31, 2004

**Reconciliation of statement of revenues, expenditures and changes in fund balances
of governmental funds to statement of activities**

Net change in fund balances - total governmental funds \$ (718,516)

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	2,210,009
Deduct - loss on disposal of capital assets	(41,712)
Deduct - depreciation expense	(298,437)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	8,917
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Internal service funds are used by management to charge the costs of certain employee benefits and equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Add - interest revenue from governmental internal service funds	2,320
Add - other revenue from governmental internal service funds	11,197
Add - gain on disposal of capital assets	33,434
Add - net operating income of internal service funds charged to governmental activities	3,389
Deduct - internal activities (transfers) accounted for in internal service funds	(4,639)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add - decrease in accrued interest payable on bonds	300
---	-----

Change in net assets of governmental activities **\$ 1,206,262**

Concluded

CITY OF CHARLEVOIX, MICHIGAN

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

MARCH 31, 2004

	Business-type Activities - Enterprise Funds					
	Major Funds			Non-Major Fund		
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina	Total	Internal Service Fund
Assets						
Current assets						
Cash and cash equivalents	\$ 870,080	\$ 550,938	\$ 376,430	\$ 56,818	\$ 1,854,266	\$ 225,839
Investments	59,874	1,121	175,042	-	236,037	100,336
Accounts receivable	810,294	98,975	39,593	57	948,919	2,435
Interest receivable	9,228	970	3,260	-	13,458	1,213
Due from other funds	253,043	-	-	-	253,043	-
Inventory	350,009	-	36,919	-	386,928	2,564
Total current assets	2,352,528	652,004	631,244	56,875	3,692,651	332,387
Noncurrent assets						
Restricted cash and cash equivalents						
For customer deposits	55,904	-	-	-	55,904	-
Restricted investments						
For replacement	75,000	75,000	75,000	-	225,000	-
For redemption	741,562	-	-	-	741,562	-
Capital assets, net of accumulated depreciation	6,831,381	3,945,481	4,546,819	27,180	15,350,861	817,796
Advance to other funds	504,000	-	-	-	504,000	-
Notes receivable	-	12,343	-	-	12,343	-
Revenue bond discount	8,800	-	-	-	8,800	-
Total noncurrent assets	8,216,647	4,032,824	4,621,819	27,180	16,898,470	817,796
Total assets	10,569,175	4,684,828	5,253,063	84,055	20,591,121	1,150,183
Liabilities						
Current liabilities						
Accounts payable	325,322	75,699	7,628	542	409,191	30,205
Accrued expenses	10,587	5,883	5,832	604	22,906	15,627
Due to other funds	-	-	-	-	-	202,023
Total current liabilities	335,909	81,582	13,460	1,146	432,097	247,855
Current liabilities payable from restricted assets						
Customer deposits	55,904	-	-	-	55,904	-
Current portion of bonds payable	350,000	-	-	-	350,000	-
Total current liabilities payable from restricted assets	405,904	-	-	-	405,904	-
Noncurrent liabilities						
Compensated absences	-	-	-	-	-	148,434
Revenue bonds payable, net of current portion	350,000	-	-	-	350,000	-
Total noncurrent liabilities	350,000	-	-	-	350,000	148,434
Total liabilities	1,091,813	81,582	13,460	1,146	1,188,001	396,289
Net assets						
Invested in capital assets, net of related debt	6,131,381	3,945,481	4,546,819	27,180	14,650,861	817,796
Restricted for replacement and redemption	816,562	75,000	75,000	-	966,562	-
Unrestricted (deficit)	2,529,419	582,765	617,784	55,729	3,785,697	(63,902)
Total net assets	\$ 9,477,362	\$ 4,603,246	\$ 5,239,603	\$ 82,909	\$ 19,403,120	\$ 753,894

Continued...

CITY OF CHARLEVOIX, MICHIGAN

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

MARCH 31, 2004

**Reconciliation of net assets on the statement of net assets for proprietary funds to net assets of
business-type activities on the statement of net assets**

Net assets - total enterprise funds \$ 19,403,120

Amounts reported for business-type activities in the statement of net assets are different because

An internal service fund is used by management to charge the costs of certain DPW site activities to individual proprietary funds. Assets and liabilities of this internal service fund are included in business-type activities in the statement of net assets.

Add - net assets of business-type activities accounted for in the internal service fund 772

Deduct - portion of internal service funds net operating income attributed to business-type funds (7,299)

Net assets of business-type activities \$ 19,396,593

Concluded

CITY OF CHARLEVOIX, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED MARCH 31, 2004

	Business-type Activities - Enterprise Funds					Internal Service Fund
	Major Funds			Non- Major Fund	Total	
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina		
Operating revenues						
Charges for services	\$ 4,950,404	\$ 887,464	\$ 690,994	\$ 203,166	\$ 6,732,028	\$ 1,821,275
Operating expenses						
Purchased power	3,201,304	-	-	-	3,201,304	-
Personal services	589,501	384,147	395,579	100,534	1,469,761	1,381,156
Contractual services	171,712	97,116	41,611	13,023	323,462	59,124
Insurance	8,721	23,004	10,494	3,932	46,151	-
Building rental	37,675	17,417	17,417	-	72,509	-
Equipment rental	85,890	58,049	25,969	1,049	170,957	-
Supplies	60,176	51,832	37,479	9,859	159,346	48,132
Utilities	14,404	103,798	56,753	14,244	189,199	9,441
Repair and maintenance	29,638	43,458	24,241	150	97,487	54,488
Depreciation	748,490	167,303	179,191	6,621	1,101,605	156,497
Miscellaneous	70,044	33,083	9,144	2,971	115,242	5,273
Total operating expenses	5,017,555	979,207	797,878	152,383	6,947,023	1,714,111
Operating income (loss)	(67,151)	(91,743)	(106,884)	50,783	(214,995)	107,164
Nonoperating revenues (expenses)						
Interest revenue	48,869	6,895	7,543	269	63,576	12,626
Other revenue	142,457	8,467	8,994	31,857	191,775	11,197
Gain on sale of fixed assets	-	-	-	-	-	33,434
Interest expense	(67,331)	-	-	-	(67,331)	-
Total nonoperating revenues (expenses)	123,995	15,362	16,537	32,126	188,020	57,257
Income (loss) before transfers	56,844	(76,381)	(90,347)	82,909	(26,975)	164,421
Transfers						
Transfers in	26,700	-	43,300	-	70,000	55,961
Transfers out	(21,000)	(5,900)	(6,000)	-	(32,900)	(1,312,200)
Total transfers	5,700	(5,900)	37,300	-	37,100	(1,256,239)
Change in net assets	62,544	(82,281)	(53,047)	82,909	10,125	(1,091,818)
Net assets, beginning of year	9,414,818	4,685,527	5,292,650	-	19,392,995	1,845,712
Net assets, end of year	\$ 9,477,362	\$ 4,603,246	\$ 5,239,603	\$ 82,909	\$ 19,403,120	\$ 753,894

Continued...

CITY OF CHARLEVOIX, MICHIGAN

**STATEMENT OF NET ASSETS
ENTERPRISE FUNDS**

FOR THE YEAR ENDED MARCH 31, 2004

**Reconciliation of the statement of revenues, expenses and changes in net assets of enterprise funds
to the statement of activities**

Change in net assets - all enterprise funds	\$	10,125
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An internal service fund is used by management to charge the costs of certain DPW site capital improvements to individual enterprise funds. The net revenue (expense) attributable to that fund is reported with business-type activities.

Add - interest revenue from business-type internal service fund	10,306
Add - net operating revenue of internal service funds charged to business-type funds	103,775
Deduct - internal activities (transfers) accounted for in business-type internal service fund	<u>(1,251,600)</u>

Change in net assets of business-type activities	\$	<u>(1,127,394)</u>
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Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF CHARLEVOIX, MICHIGAN

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED MARCH 31, 2004

	Enterprise Funds					
	Major Funds			Non - Major Fund		
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina	Total	Internal Service Fund
Cash flows from operating activities						
Cash received from customers	\$ 4,995,850	\$ 825,840	\$ 668,705	\$ 203,109	\$ 6,693,504	\$ -
Cash received from interfund services	-	-	-	-	-	1,846,695
Cash payments to employees	(590,845)	(386,433)	(398,388)	(99,930)	(1,475,596)	(1,360,665)
Cash payments to suppliers for goods and services	(3,564,152)	(412,399)	(230,794)	(44,686)	(4,252,031)	(158,468)
Net cash provided by (used in) operating activities	840,853	27,008	39,523	58,493	965,877	327,562
Cash flows from non-capital financing activities						
Notes receivable	-	3,086	-	-	3,086	-
Miscellaneous income	142,457	8,467	8,994	31,857	191,775	11,197
Receipt of amounts due from other funds	214,644	-	-	-	214,644	65,596
Proceeds from amounts due to other funds	-	-	-	-	-	202,023
Repayment of amount due to other funds	(13,080)	(17,955)	(9,511)	-	(40,546)	(2,388)
Transfers in from other funds	26,700	-	43,300	-	70,000	55,961
Transfers out to other funds	(21,000)	(5,900)	(6,000)	-	(32,900)	(1,312,200)
Net cash provided by (used in) non-capital financing activities	349,721	(12,302)	36,783	31,857	406,059	(979,811)
Cash flows from capital and related financing activities						
Proceeds from sale of capital assets	-	-	-	-	-	50,484
Purchase of capital assets	(813,927)	(55,207)	(34,725)	(33,801)	(937,660)	(138,853)
Bond principal payments	(300,000)	-	-	-	(300,000)	-
Bond interest payments	(62,931)	-	-	-	(62,931)	-
Net cash provided by (used in) capital and related financing activities	(1,176,858)	(55,207)	(34,725)	(33,801)	(1,300,591)	(88,369)
Cash flows from investing activities						
Proceeds from matured investments	956,575	-	-	-	956,575	250,000
Purchase of investments	-	(1,121)	(55,042)	-	(56,163)	(336)
Advance to other funds	(504,000)	-	-	-	(504,000)	-
Investment income	57,891	8,572	7,972	269	74,704	12,418
Net cash provided by (used in) investing activities	510,466	7,451	(47,070)	269	471,116	262,082
Net increase (decrease) in cash and cash equivalents	524,182	(33,050)	(5,489)	56,818	542,461	(478,536)
Cash and cash equivalents, beginning of year	401,802	583,988	381,919	-	1,367,709	704,375
Cash and cash equivalents, end of year	\$ 925,984	\$ 550,938	\$ 376,430	\$ 56,818	\$ 1,910,170	\$ 225,839

Continued...

CITY OF CHARLEVOIX, MICHIGAN

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED MARCH 31, 2004

	Enterprise Funds					
	Major Funds			Non-Major Fund		
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina	Total	Internal Service Fund
Reconciliation to statement of net assets						
Cash and cash equivalents	\$ 870,080	\$ 550,938	\$ 376,430	\$ 56,818	\$ 1,854,266	\$ 225,839
Restricted cash and cash equivalents	55,904	-	-	-	55,904	-
Cash and cash equivalents, end of year	<u>\$ 925,984</u>	<u>\$ 550,938</u>	<u>\$ 376,430</u>	<u>\$ 56,818</u>	<u>\$ 1,910,170</u>	<u>\$ 225,839</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	\$ (67,151)	\$ (91,743)	\$ (106,884)	\$ 50,783	\$ (214,995)	\$ 107,164
Adjustments to reconcile operating income (loss) to net cash provided by operating activities						
Depreciation	748,490	167,303	179,191	6,621	1,101,605	156,497
Changes in assets and liabilities						
Accounts receivable	46,965	(61,624)	(22,289)	(57)	(37,005)	25,420
Inventory	15,534	-	(6,023)	-	9,511	2,129
Accounts payable and accrued liabilities	98,534	13,072	(4,472)	1,146	108,280	36,352
Customer deposits payable	(1,519)	-	-	-	(1,519)	-
Net cash provided by (used in) operating activities	<u>\$ 840,853</u>	<u>\$ 27,008</u>	<u>\$ 39,523</u>	<u>\$ 58,493</u>	<u>\$ 965,877</u>	<u>\$ 327,562</u>

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF CHARLEVOIX, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED MARCH 31, 2004

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Taxes				
Property taxes	\$ 1,538,400	\$ 1,563,633	\$ 1,546,493	\$ (17,140)
Payments in lieu of taxes	2,100	2,005	2,005	-
Interest and penalties on delinquent taxes	8,200	3,608	10,476	6,868
Tax collection fees	17,400	17,400	18,775	1,375
Total taxes	1,566,100	1,586,646	1,577,749	(8,897)
State revenues	291,600	335,415	326,892	(8,523)
Licenses and permits	9,000	9,000	10,555	1,555
Charges for services				
Fire runs	45,700	53,817	53,817	-
Ambulance runs	140,000	145,530	139,612	(5,918)
Ambulance contracts	29,200	32,830	32,830	-
Charges for services - other	1,000	1,050	39	(1,011)
Cemetery	43,200	38,176	36,974	(1,202)
Golf course	181,600	163,489	176,440	12,951
Summer sports	19,000	16,180	16,180	-
Day camp	36,000	36,359	36,059	(300)
Winter sports	40,000	50,000	71,959	21,959
Basketball	7,000	7,000	5,694	(1,306)
Parking	21,500	23,770	23,770	-
Total charges for services	564,200	568,201	593,374	25,173
Fine and forfeits	27,300	27,825	25,086	(2,739)
Interest and dividends	11,000	9,700	6,119	(3,581)
Rents and royalties				
Harbor building	1,200	1,200	1,200	-
City hall	79,100	79,100	72,508	(6,592)
Boat launch	20,800	20,461	19,147	(1,314)
Total rents and royalties	101,100	100,761	92,855	(7,906)
Other revenues	5,300	11,737	14,899	3,162
Total revenues	2,575,600	2,649,285	2,647,529	(1,756)

Continued...

CITY OF CHARLEVOIX, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED MARCH 31, 2004

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Legislative				
City council	\$ 38,600	\$ 44,293	\$ 47,817	\$ 3,524
General government				
Mayor	9,000	11,135	9,832	(1,303)
City manager	54,900	49,060	54,046	4,986
Elections	7,800	8,218	9,093	875
Assessor	52,100	49,850	3,379	(46,471)
City attorney	54,300	71,156	85,705	14,549
City clerk	27,600	22,095	22,539	444
City treasurer	51,400	50,516	43,677	(6,839)
City hall and grounds	45,600	46,779	43,776	(3,003)
Cemetery	72,000	70,610	68,617	(1,993)
Total general government	374,700	379,419	340,664	(38,755)
Public safety				
Police department	567,300	550,589	584,698	34,109
Parking law enforcement	8,700	8,628	8,562	(66)
Fire department	239,100	246,263	247,121	858
Planning department	77,100	80,804	77,560	(3,244)
Total public safety	892,200	886,284	917,941	31,657
Public works				
Highways and streets	25,400	25,441	26,368	927
Leaf pick up	90,000	118,648	118,270	(378)
Waste collection	26,800	20,965	23,679	2,714
Brush pickup	25,400	25,000	28,276	3,276
Total public works	167,600	190,054	196,593	6,539

Continued...

CITY OF CHARLEVOIX, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR MARCH 31, 2004

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Health and welfare				
Ambulance	\$ 166,200	\$ 177,182	\$ 171,463	\$ (5,719)
Recreation and culture				
Parks	176,400	205,102	207,493	2,391
Recreation administration	37,000	36,435	37,915	1,480
City beaches	52,300	67,311	72,502	5,191
Ball fields	46,700	45,554	45,913	359
Day camp	39,300	41,997	42,096	99
Ice rink	21,200	17,722	7,344	(10,378)
Mt. McSaubia ski hill	233,100	213,315	241,987	28,672
Basketball and volleyball	9,000	9,000	6,470	(2,530)
Golf course	312,000	216,289	233,966	17,677
Boat launch	16,800	14,141	13,238	(903)
Community promotion	20,200	20,200	18,841	(1,359)
Total recreation and culture	964,000	887,066	927,765	40,699
Other expenditures	115,200	50,538	46,638	(3,900)
Total expenditures	2,718,500	2,614,836	2,648,881	34,045
Revenues over (under) expenditures	(142,900)	34,449	(1,352)	(35,801)
Other financing sources (uses)				
Transfers in	207,000	85,956	100,553	14,597
Transfers out	(102,000)	(106,561)	(106,561)	-
Total other financing sources (uses)	105,000	(20,605)	(6,008)	14,597
Net change in fund balance	(37,900)	13,844	(7,360)	(21,204)
Fund balance, beginning of year	447,655	447,655	447,655	-
Fund balance, end of year	\$ 409,755	\$ 461,499	\$ 440,295	\$ (21,204)

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF CHARLEVOIX, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHARGES
IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR STREETS FUND**

FOR THE YEAR ENDED MARCH 31, 2004

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
State revenue	\$ 412,900	\$ 414,529	\$ 233,586	\$ (180,943)
Interest	500	200	405	205
Total revenues	413,400	414,729	233,991	(180,738)
Expenditures				
Public works - Highways and streets	626,800	621,816	500,073	(121,743)
Revenues over (under) expenditures	(213,400)	(207,087)	(266,082)	(58,995)
Other financing sources (uses)				
Transfers in	212,300	218,465	251,690	33,225
Transfers out	1,900	(1,900)	-	1,900
Total other financing sources (uses)	214,200	216,565	251,690	35,125
Net change in fund balance	800	9,478	(14,392)	(23,870)
Fund balance, beginning of year	62,895	62,895	62,895	-
Fund balance, end of year	\$ 63,695	\$ 72,373	\$ 48,503	\$ (23,870)

The accompanying notes are an integral part of these financial statements.

CITY OF CHARLEVOIX, MICHIGAN

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LOCAL STREETS FUND**

FOR THE YEAR ENDED MARCH 31, 2004

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
State revenue	\$ 64,100	\$ 64,100	\$ 76,946	\$ 12,846
Interest	400	400	780	380
Total revenues	64,500	64,500	77,726	13,226
Expenditures				
Public works - Highways and streets	194,500	159,732	143,651	(16,081)
Revenues over (under) expenditures	(130,000)	(95,232)	(65,925)	29,307
Other financing sources (uses)				
Transfers in	125,000	102,000	105,708	3,708
Transfers out	(1,200)	(1,200)	-	1,200
Total other financing sources (uses)	123,800	100,800	105,708	4,908
Net change in fund balance	(6,200)	5,568	39,783	34,215
Fund balance, beginning of year	43,537	43,537	43,537	-
Fund balance, end of year	\$ 37,337	\$ 49,105	\$ 83,320	\$ 34,215

The accompanying notes are an integral part of these financial statements.

CITY OF CHARLEVOIX, MICHIGAN

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
CURRENT TAX COLLECTION FUND**

MARCH 31, 2004

Assets	
Cash and cash equivalents	<u><u>\$ 130,455</u></u>
Liabilities	
Undistributed receipts	<u><u>\$ 130,455</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF CHARLEVOIX, MICHIGAN

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NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2004

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CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The **City of Charlevoix, Michigan** (the “City”) was incorporated in 1905 and adopted a Home Rule Charter in April 1978 under Act 279, P.A. 1909 as amended (Home Rule City Act). The City government is directed by a six member City Council and a Mayor elected by the community at large. This legislative body appoints a City Manager to administer the affairs of the City. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, electricity, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services.

Discretely presented component unit. The Charlevoix Downtown Development Authority (DDA) is responsible for certain projects and activities whose purpose is to revitalize the downtown business district. The members of the DDA’s governing board are appointed the Mayor of the City. The City also has the ability to significantly influence the operations of the DDA. A complete financial statement of the Downtown Development Authority can be obtained from the City Treasurer at the City of Charlevoix, 210 State Street, Charlevoix, MI 49720.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Streets Fund* accounts for the use of motor fuel taxes and trunkline maintenance funds, which are earmarked by state statute for major street and highway purposes.

The *Local Streets Fund* accounts for the use of motor fuel taxes, which are earmarked by state statute for local street and highway purposes.

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

The *City Hall Improvements Fund* is used to account for the major renovation project underway at City Hall; the project is expected to be complete in August 2004.

The *Infrastructure Improvements Fund* accounts for use of property taxes, which are used for capital improvements throughout the City.

The government reports the following major proprietary funds:

The *Electric Utility Fund* accounts for the activities of the government's electrical utility system.

The *Sewage Disposal Utility Fund* accounts for the activities of the government's sewage disposal and treatment system.

The *Water Utility Fund* accounts for the activities of the government's water distribution and treatment system.

Additionally, the government reports the following fund types:

The *Special Revenue Fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

The *Capital Projects Funds* account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

The *Permanent Fund* accounts for the perpetual care portion of the fee collected from the sale of cemetery lots. These monies are accumulating until such a time when they become adequate to be used to support cemetery operations.

The *Enterprise Fund* accounts for the activities of the government's marina.

The *Internal Service Funds* account for fleet and equipment management, employee fringe benefits, and construction of the DPW building provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

The *Agency Fund* accounts for assets held for other governments in an agency capacity, specifically tax collections.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water, sewage disposal, and electric function, cost of building rent and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric, sewage disposal and water enterprise funds and of the government's internal service funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

D. Assets, liabilities and net assets or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Restricted assets

Certain proceeds of the Electric Enterprise Fund Revenue Bonds, as well as certain resources set aside for their repayment, are classified as restricted cash and cash equivalents and restricted investments on the balance sheet because their use is limited by applicable bond covenants. Also, certain resources have been set aside to fund capital asset replacements and customer deposits payable.

4. Inventory

Inventory held by the enterprise and internal service funds are valued at cost on the first-in, first-out basis. Inventory of expendable supplies in other funds have not been recorded and the amount of any such inventories is not considered material. The cost value of such inventories has been treated as an expenditure at the time of purchase.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Capital assets of the primary government and component unit are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	40
Land improvements	20-30
System infrastructure	50
Equipment	5-10
Vehicles	7-25
Public domain infrastructure	50

6. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and 50 percent of sick leave up to 40 days for employees within the Communications Workers of America and Fraternal Order of Police union and fourteen days for the non-union employees are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in government-wide and proprietary funds; otherwise, total accumulated and unused vacation time is reported as a liability in the employees fringe benefit internal service fund as a result of employee resignations or retirements.

7. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

8. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

On or before the third Monday in January of each year, the City Manager must present the proposed budget to the government's council for review. The City Council holds public hearings and a final budget must be prepared and adopted no later than the third Monday in February.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing board is the function level, which is the level at which expenditures may not legally exceed appropriations. The City Manager may make transfers of appropriations between departments within any funds; however any supplemental appropriations that amend the total expenditures of any fund require City Council resolution.

B. Excess of expenditures over appropriations

For the year ended March 31, 2004, expenditures exceed final appropriations in the General Fund legislative function by \$3,524, public safety function by \$31,657, the public works function by \$6,539 and the recreation and culture function by \$40,699. These expenditures were funded by use of the prior year fund balance.

C. Deficit fund balance

The Infrastructure Improvement capital projects fund ended the year with a deficit fund balance of \$88,953. Fund revenues will be budgeted to exceed expenditures in order to eliminate the deficit during the year ended March 31, 2005. The Employee Fringe Benefit internal service fund ended the year with an insignificant deficit fund balance of \$308; no deficit elimination plan was created.

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Michigan Compiled Laws, Section 129.91 authorizes the local government unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City Council has designated five banks for the deposit of City funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, interest bearing savings and checking accounts, repurchase agreements, bankers' acceptance of United States banks, federal agency instruments, money market funds with a net asset value of a \$1.00 per share, commercial paper within the two highest classifications and negotiable and non-negotiable certificates of deposits, but not the remainder of State statutory authority as listed above.

The City's deposits and investment policy are in accordance with statutory authority.

Cash and cash equivalents, investments and restricted assets are reported in the financial statements as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
Cash and cash equivalents	\$1,884,914	\$1,854,266	\$ 130,455	\$3,869,635	\$ 590,143
Investments	418,249	286,037	-	704,286	-
Restricted cash	-	55,904	-	55,904	-
Restricted investments	-	966,562	-	966,562	-
Total	<u>\$2,303,163</u>	<u>\$3,162,769</u>	<u>\$ 130,455</u>	<u>\$5,596,387</u>	<u>\$ 590,143</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking, savings accounts and certificates of deposit)	\$2,919,194
Investments	<u>3,267,336</u>
Total	<u>\$6,186,530</u>

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

The bank balance of the government's deposits including the component unit is \$3,300,493. Of the bank balance, \$436,358 was covered by federal depository insurance. The remaining balance of \$2,864,135 was uninsured and uncollateralized.

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

At year end, the City's investment balances were as follows:

Primary Government

	<u>Fair Value</u>
Uncategorized by risk	
Mutual and cash management funds	<u>\$3,267,336</u>

B. Receivables

Receivables in the governmental activities consist of 53 percent due from other governments, 2 percent interest receivable, 24 percent taxes receivable, and 21 percent accounts receivable. Receivables in the business-type activities consist of 2 percent interest receivable, 1 percent note receivable, and 97 percent due from customers. Receivables in the component unit consist of 7 percent taxes receivable, 18 percent due from other governments and 75 percent accounts receivable.

C. Capital assets

Capital assets activity for the year ended March 31, 2004 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities					
Capital assets not being depreciated					
Land	\$16,953,529	\$ -	\$ -	\$ -	\$16,953,529
Construction-in-process	-	1,745,815	-	-	1,745,815
Total capital assets not being depreciated	<u>16,953,529</u>	<u>1,745,815</u>	<u>-</u>	<u>-</u>	<u>18,699,344</u>

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated					
Land improvements	\$ 3,062,132	\$ 163,072	\$ -	\$ (3,150)	\$ 3,222,054
Infrastructure	118,249	238,105	-	-	356,354
Buildings and improvements	4,735,404	19,113	(119,465)	-	4,635,052
Machinery and equipment	1,385,197	90,209	-	(147,396)	1,328,010
Engineering equipment	16,270	-	-	-	16,270
Furniture and equipment	189,156	16,948	-	(18,611)	187,493
Vehicles	<u>1,818,065</u>	<u>75,600</u>	<u>-</u>	<u>-</u>	<u>1,893,665</u>
Total capital assets being depreciated	<u>11,324,473</u>	<u>603,047</u>	<u>(119,465)</u>	<u>(169,157)</u>	<u>11,638,898</u>
Less accumulated depreciation for					
Land improvements	(1,107,740)	(99,577)	-	3,150	(1,204,167)
Infrastructure	(3,095)	(7,857)	-	-	(10,952)
Buildings and improvements	(2,403,921)	(101,424)	87,608	-	(2,417,737)
Machinery and equipment	(954,560)	(99,120)	-	120,899	(932,781)
Engineering equipment	(10,439)	(1,806)	-	-	(12,245)
Furniture and equipment	(142,212)	(21,567)	-	18,203	(145,576)
Vehicles	<u>(1,184,978)</u>	<u>(112,257)</u>	<u>-</u>	<u>-</u>	<u>(1,297,235)</u>
Total accumulated depreciation	<u>(5,806,945)</u>	<u>(443,608)</u>	<u>87,608</u>	<u>142,252</u>	<u>(6,020,693)</u>
Total capital assets being depreciated, net of depreciation	<u>5,517,528</u>	<u>159,439</u>	<u>(31,857)</u>	<u>(26,905)</u>	<u>5,618,205</u>
Governmental activities capital assets, net of depreciation	<u>\$22,471,057</u>	<u>\$ 1,905,254</u>	<u>\$ (31,857)</u>	<u>\$ (26,905)</u>	<u>\$24,317,549</u>
Business-type activities					
Capital assets not being depreciated – land	<u>\$ 609,468</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 609,468</u>
Capital assets being depreciated					
Land improvements	634,985	8,780	119,465	-	763,230
Buildings and improvements	6,483,135	11,305	-	-	6,494,440
System improvements	18,471,448	796,594	-	(1,063)	19,266,979
Equipment	<u>832,279</u>	<u>91,883</u>	<u>-</u>	<u>-</u>	<u>924,162</u>
Total capital assets being depreciated	<u>26,421,847</u>	<u>908,562</u>	<u>119,465</u>	<u>(1,063)</u>	<u>27,448,811</u>

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for					
Land improvements	\$ (57,080)	\$ (26,782)	\$ (87,608)	\$ -	\$ (171,470)
Buildings and improvements	(3,191,283)	(176,085)	-	-	(3,367,368)
System improvements	(7,501,351)	(843,683)	-	(643)	(8,345,677)
Equipment	(603,291)	(66,381)	-	(1,032)	(670,704)
Total accumulated depreciation	<u>(11,353,005)</u>	<u>(1,112,931)</u>	<u>(87,608)</u>	<u>(1,675)</u>	<u>(12,555,219)</u>
Total capital assets being depreciated, net of depreciation	<u>15,068,842</u>	<u>(204,369)</u>	<u>31,857</u>	<u>(2,738)</u>	<u>14,893,592</u>
Business-type activities capital assets, net of depreciation	<u>\$15,678,310</u>	<u>\$ (204,369)</u>	<u>\$ 31,857</u>	<u>\$ (2,738)</u>	<u>\$15,503,060</u>
Component unit					
Capital assets not being depreciated – land	<u>\$ 778,413</u>	<u>\$ 635,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,413,413</u>
Capital assets being depreciated					
Land improvements	2,119,047	105,250	-	-	2,224,297
Buildings and improvements	3,852,231	69,295	-	-	3,921,526
Machinery and equipment	2,000	-	-	-	2,000
Engineering equipment	31,347	-	-	-	31,347
Furniture and equipment	<u>1,000</u>	<u>2,400</u>	<u>-</u>	<u>-</u>	<u>3,400</u>
Total capital assets being depreciated	<u>6,005,625</u>	<u>176,945</u>	<u>-</u>	<u>-</u>	<u>6,182,570</u>
Less accumulated depreciation for					
Land improvements	(475,545)	(73,798)	-	-	(549,343)
Buildings and improvements	(855,156)	(100,747)	-	-	(955,903)
Machinery and equipment	(2,000)	-	-	-	(2,000)
Engineering equipment	(8,130)	(2,604)	-	-	(10,734)
Furniture and equipment	<u>(1,000)</u>	<u>(240)</u>	<u>-</u>	<u>-</u>	<u>(1,240)</u>
Total accumulated depreciation	<u>(1,341,831)</u>	<u>(177,389)</u>	<u>-</u>	<u>-</u>	<u>(1,519,220)</u>
Total capital assets being depreciated, net of depreciation	<u>4,663,794</u>	<u>(444)</u>	<u>-</u>	<u>-</u>	<u>4,663,350</u>

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>Ending Balance</u>
Component unit capital assets, net of depreciation	<u>\$ 5,442,207</u>	<u>\$ 634,556</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,076,763</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

City council	\$ 400
General government	64,987
Public safety	56,349
Public works, including depreciation of general infrastructure assets	80,320
Health and welfare	262
Recreation and culture	96,119
Capital assets held by the governmental activity	
Internal Service Funds are charged to the various functions based on their usage of the assets	<u>145,171</u>

Total depreciation expense – governmental activities **\$ 443,608**

Business-type activities

Electric	\$ 748,490
Sewage disposal	167,303
Water	179,191
Marina	6,621
Capital assets held by the business-type activity	
Internal Service Fund are charged to the various functions based on their usage of the assets	<u>11,326</u>

Total depreciation expense – business-type activities **\$1,112,931**

D. Payables

Governmental activities and component unit accounts payable are composed entirely of amounts due to vendors. Business-type activities accounts payable consist of 88 percent vendor payables and 12 percent customer deposits.

E. Interfund receivables, payables and transfers

The Electric Utility Enterprise Fund advanced \$504,000 to the City Hall Improvements Fund during the year ended March 31, 2004 for the purpose of assisting in the City Hall renovation project. The advance is to be repaid over three years with interest charged at current earned market rate.

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

The composition of interfund balances is as follows:

	Due to		Total
	<u>Electric Utility</u>	<u>Nonmajor Governmental</u>	
Due from			
Major Streets	\$ 7,193	\$ -	\$ 7,193
Infrastructure Improvements	-	75,000	75,000
Nonmajor governmental	43,827	-	43,827
Internal Service	<u>202,023</u>	<u>-</u>	<u>202,023</u>
Total	<u>\$ 253,043</u>	<u>\$ 75,000</u>	<u>\$ 328,043</u>

Interfund receivables and payables are established to cover temporary cash deficits.

<u>Transfers in</u>	Transfer out			Subtotal Transfers In
	<u>General Fund</u>	<u>Infrastructure Improvements</u>	<u>Nonmajor Governmental Funds</u>	
General Fund	\$ -	\$ 80,953	\$ 19,600	\$ 100,553
Major Streets	-	251,690	-	251,690
Local Streets	75,000	30,708	-	105,708
City Hall Improvements	10,000	60,000	-	70,000
Electric Utility	-	26,700	-	26,700
Water Utility	-	43,300	-	43,300
Internal Service	<u>21,561</u>	<u>-</u>	<u>-</u>	<u>21,561</u>
Subtotal transfers out	<u>\$ 106,561</u>	<u>\$ 493,351</u>	<u>\$ 19,600</u>	<u>\$ 619,512</u>

<u>Transfers in</u>	Transfer out				Subtotal Transfers In
	<u>Electrical Fund</u>	<u>Sewage Disposal Utility</u>	<u>Water Utility</u>	<u>Internal Service</u>	
City Hall Improvements	\$ -	\$ 5,900	\$ 6,000	\$ 1,273,300	\$ 1,285,200
Nonmajor Governmental funds	-	-	-	25,500	25,500
Internal Service	<u>21,000</u>	<u>-</u>	<u>-</u>	<u>13,400</u>	<u>34,400</u>
Subtotal transfers out	<u>\$ 21,000</u>	<u>\$ 5,900</u>	<u>\$ 6,000</u>	<u>\$ 1,312,200</u>	<u>\$ 1,345,100</u>

Transfers in/out totaled \$1,964,612 for the year ended March 31, 2004.

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Interfund transfers are for: (1) to cover fringe benefits costs in the employee fringe benefit fund, (2) to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (3) to transfer available funds to the City Hall Improvements Capital Projects Fund to cover costs of the city hall renovation project.

F. Long-term debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued by the DDA discrete component unit. The original amount of outstanding general obligation bonds issued in prior years was \$3,500,000. In 2004, the DDA issued \$2,290,000 in general obligation bonds, the proceeds of which were used to current refund \$2,120,000 of the original issue. The refunding transaction resulted in an aggregate difference in debt service payments of \$348,902 and an economic gain of \$241,913.

Installment purchases. The primary government's and component unit's Public Act 99 installment purchase agreements are also general obligations of the City. The original amount of the primary government's installment purchase agreement was \$180,000 and the component unit's installment purchase agreement was \$1,500,000. In 2004, the DDA component unit entered into a Public Act 99 installment purchase agreement for \$635,000 to purchase the old middle school property.

General obligation bonds and installment purchase agreements are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 15 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds and installment purchase agreements currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities		
General government – installment purchase	5.625%	<u>\$ 155,449</u>
Component Unit – Downtown Development Authority		
General government – 1994 general obligation bond	4.45 - 6.80%	\$ 200,000
General government – 2004 general obligation refunding bond	2.0 – 3.5%	2,290,000
General government – 2004 installment purchase	1.05 – 3.51%	635,000
General government – installment purchase	4.3% - 4.8%	<u>800,431</u>
		<u>\$3,925,431</u>

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Annual debt service requirements to maturity for general obligation bonds and installment purchase agreements are as follows:

Year Ending March 31,	<u>Governmental Activities</u>		<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 9,417	\$ 8,744	\$ 242,000	\$ 73,230
2006	9,950	8,214	391,347	95,429
2007	10,508	7,655	391,347	93,391
2008	11,099	7,064	396,347	84,015
2009	11,723	6,439	401,347	74,589
2010-2014	69,280	21,532	1,888,043	206,583
2015-2018	<u>33,472</u>	<u>2,850</u>	<u>215,000</u>	<u>23,322</u>
Total	<u>\$ 155,449</u>	<u>\$ 62,498</u>	<u>\$3,925,431</u>	<u>\$ 650,559</u>

Revenue bonds. The government also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years for the item listed below was \$3,300,000. No revenue bonds were issued during the current year. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Electric supply system	5% - 10%	<u>\$ 700,000</u>

Revenue bond debt service requirements to maturity are as follows:

Year Ending March 31,	<u>Principal</u>	<u>Interest</u>
2005	\$ 350,000	\$ 41,563
2006	<u>350,000</u>	<u>17,500</u>
Total	<u>\$ 700,000</u>	<u>\$ 59,063</u>

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Changes in long-term debt. Long-term liability activity for the year ended March 31, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Primary Government</u>					
Governmental activities					
Installment purchase agreements	\$ 164,366	\$ -	\$ (8,917)	\$ 155,449	\$ 9,417
Compensated absences	<u>131,172</u>	<u>17,262</u>	<u>-</u>	<u>148,434</u>	<u>-</u>
	<u>\$ 295,538</u>	<u>\$ 17,262</u>	<u>\$ (8,917)</u>	<u>\$ 303,883</u>	<u>\$ 9,417</u>
Business-type activities					
Revenue bonds	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ (300,000)</u>	<u>\$ 700,000</u>	<u>\$ 350,000</u>
<u>Component unit</u>					
General obligation bonds	\$ 2,495,000	\$ 2,290,000	\$ (2,295,000)	\$ 2,490,000	\$ 200,000
Installment purchase agreements	<u>899,738</u>	<u>635,000</u>	<u>(99,307)</u>	<u>1,435,431</u>	<u>42,000</u>
	<u>\$ 3,394,738</u>	<u>\$ 2,925,000</u>	<u>\$ (2,394,307)</u>	<u>\$ 3,925,431</u>	<u>\$ 242,000</u>

G. Segment information - enterprise funds

The government issued revenue bonds to finance certain improvements to its electrical supply system. Because the Electric Utility Fund, an individual fund that accounts entirely for the government's electrical distribution, is a segment and is reported as a major fund in the fund financial statements, segment disclosures herein are not required.

H. Operating lease and commitment

The City has entered into an operating lease agreement with the Beaver Island Boat Company ("BIBCO"). BIBCO rents dock space and office space from the City. Both parties have agreed to a 5-year rental agreement, which BIBCO has a conditional right of renewal it may exercise five times. The City has also signed a \$30,000 promissory note payable to BIBCO in the event the City elects to terminate the rental agreement before 2028. Also, if the City were to terminate this agreement before 2028, then it would be liable to BIBCO for the balance on BIBCO's note for the construction of a new storage building, which approximates \$68,000 as of March 31, 2004. Projected operating lease proceeds through the year ended 2028 are as follows:

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

<u>Year Ended March 31,</u>	<u>Amount</u>
2005	\$ 16,877
2006	17,561
2007	18,268
2008	19,001
2009	19,759
2010-2014	111,126
2015-2019	134,478
2020-2024	168,470
2025-2028	<u>178,238</u>
	<u>\$ 683,778</u>

IV. OTHER INFORMATION

A. Risk management

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. During the year ended March 31, 2004, the government carried insurance through various commercial carriers, including the Michigan Municipal League, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

B. Commitments and contingencies

The City entered into an agreement with Petrie Construction on March 17, 2003 in the amount of \$ 2,073,109 to renovate the city hall. Total project costs are estimated to be \$2,119,875, as of March 31, 2004; \$1,745,815 has been reported as construction-in-progress for the project. The estimate completion date is August 2004.

A suit was filed in June 2004 by the insurance company that issued a payment bond to a general contractor used by the City. The suit claims the City should have issued payments jointly to the contractor and bonding company. A payment was made by the City directly to the contractor for \$222,978. The contractor did not pay its subcontractors from those funds and claims were made against the insurance company. The City is researching the claim and has not answered the complaint.

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

C. Property taxes

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Charlevoix County.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value. Real and personal property in the City for the 2003 levy were assessed and equalized at \$187,317,191 (not including properties subject to Industrial Facilities Tax exemption), representing 50 percent of estimated current market value. The government's general operating tax rate for fiscal year 2003-04 was 8.5 mills, with an additional 3.1718 mills levied for infrastructure improvements and an additional .49 mills levied for refuse.

Property taxes for the DDA are derived from a tax increment financing agreement between the DDA and other taxing districts. Under this arrangement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City of Charlevoix, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

D. Defined benefit pension plan

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, MI 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate is 5.8683% of annual covered payroll. Communication Workers of America affiliated City employees are required to contribute 3% of their annual covered payroll. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adopted by the City.

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Annual Pension Cost

For the year ended March 31, 2004 the City's annual pension cost of \$213,511 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit and (c) projected salary increases of 4.5% per year, compounded annually, attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2002, the date of the last actuarial valuation, was 30 years.

Three-year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
3/31/02	\$ 176,417	100%	\$ -
3/31/03	198,097	100%	-
3/31/04	213,511	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) Entry Age (b)</u>	<u>Actuarial Accrued Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/00	\$ 4,453,454	\$ 6,107,138	\$ 1,653,684	73%	\$ 1,592,627	104%
12/31/01	4,831,440	6,440,200	1,608,760	75%	1,611,123	100%
12/31/02	5,064,673	6,797,909	1,733,246	75%	1,676,077	103%

E. Defined contribution plan

The City provides pension benefits to its City Manager through a defined contribution plan "City of Charlevoix City Manager Money Purchase Plan." In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the City Council, the City contributed 21.8% of the City Manager's gross earnings. His contributions plus interest is allocated to his account and he is fully vested at March 31, 2004.

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

The City Manager's total payroll during the current year was \$96,675. The current year contribution was calculated based on covered payroll of \$95,363, resulting in an employer contribution of \$9,497.

F. Entitlement commitment

During 1979 and 1982, the Michigan Public Power Agency (MPPA), of which the City is a member, acquired an ownership interest in the Consumer Power Campbell No. 3 plant, the Detroit Edison Belle River Unit and other related assets.

The City has entered into contracts with MPPA for the City's electric entitlement share of the Campbell No. 3 and Belle River Unit generating capacities of 2074(kw) and 3869(kw), respectively.

The Power Sales Contract requires payments on a "take-and-pay" basis for the City's entitlement share of power and energy from the Project as is available under the Project Agreements. In the event payment is not required for any month under the City's Power Sales Contract, the City is required to make payment for such month under this Project Support Contract on a "take-or-pay" basis. The payment under the Project Support Contract would be the amount the City would have been required to pay under its Power Sales Contract for such month if any power and energy from the Project that is available under the Project Agreements had been made available to the City.

If a participant of the MPPA defaults in the performance of its obligations under its Power Sales Contract or Project Support Contract, the MPPA is unable to sell such participant's entitlement share. The remaining participants not in default are obligated to assume pro rata shares of such entitlement share up to 25 percent of their original entitlement shares.

In prior years, the MPPA over-charged its member utilities on their power sales contract agreements. MPPA and the member utilities have established a trust fund ("The Municipal Competitive Trust"). Specific policies have been established by each member regarding the use of these funds. The City of Charlevoix's share of this trust fund was approximately \$455,203 at March 31, 2004.

CITY OF CHARLEVOIX, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

The City's share of MPPA annual debt service requirements, used as a measure of minimum annual payments are as follows:

Year Ended December 31,	Campbell No. 3		Belle River Unit		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 130,960	\$ 64,109	\$ 224,565	\$ 229,132	\$ 355,525	\$ 293,241
2006	138,074	56,907	235,538	218,165	373,612	275,072
2007	145,979	49,313	247,087	206,530	393,066	255,843
2008	154,148	41,284	258,803	194,878	412,951	236,162
2009	162,560	32,806	272,332	181,291	434,892	214,097
2010-2014	579,719	61,506	1,589,775	678,586	2,169,494	740,092
2015-2019	-	-	<u>1,599,345</u>	<u>215,285</u>	<u>1,599,345</u>	<u>215,285</u>
Total	<u>\$1,311,440</u>	<u>\$ 305,925</u>	<u>\$ 4,427,445</u>	<u>\$ 1,923,867</u>	<u>\$ 5,738,885</u>	<u>\$ 2,229,792</u>

During the year ended March 31, 2004, the City purchased power from both the Campbell No. 3 and Belle River Units.

G. Prior period adjustment

Beginning net assets for governmental activities and business-type activities in the government- wide financial statements were adjusted by \$62,601 and \$68,571, respectively to correct the over reporting of compensated absences.

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CITY OF CHARLEVOIX, MICHIGAN

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

MARCH 31, 2004

	Special				
	Revenue Fund		Capital Projects Funds		
	Airport	Fire Truck and Ambulance	Marina Improvements	Industrial Park	Depot Beach
ASSETS					
Cash and cash equivalents	\$ 13,504	\$ 121,689	\$ 1,097	\$ 113,044	\$ 51
Investments	-	21,569	-	65,000	-
Accounts receivable	10,118	-	-	-	-
Interest receivable	-	283	-	775	-
Due from other funds	-	-	-	-	-
Due from other governments	-	-	-	-	12,203
Total assets	\$ 23,622	\$ 143,541	\$ 1,097	\$ 178,819	\$ 12,254
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 2,476	\$ -	\$ -	\$ -	\$ -
Accrued expenses	982	-	-	-	-
Due to other funds	-	-	1,088	-	12,119
Total liabilities	3,458	-	1,088	-	12,119
Fund Balances					
Reserved for perpetual care	-	-	-	-	-
Unreserved					
Undesignated	20,164	143,541	9	178,819	135
Total fund balances	20,164	143,541	9	178,819	135
Total liabilities and fund balances	\$ 23,622	\$ 143,541	\$ 1,097	\$ 178,819	\$ 12,254

Capital Projects Funds				Permanent Fund	Total Nonmajor Governmental Funds
Lake Michigan Beach	Mt. McSauba Improvements	Downtown Parking	Total	Cemetery Care	
\$ 845	\$ 27,333	\$ 70,709	\$ 334,768	\$ 143,049	\$ 491,321
-	-	5,112	91,681	56,232	147,913
2,950	-	-	2,950	-	13,068
-	-	67	1,125	739	1,864
-	-	-	-	75,000	75,000
27,010	-	-	39,213	-	39,213
\$ 30,805	\$ 27,333	\$ 75,888	\$ 469,737	\$ 275,020	\$ 768,379

\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,476
-	-	-	-	-	982
30,620	-	-	43,827	-	43,827
30,620	-	-	43,827	-	47,285
-	-	-	-	275,020	275,020
185	27,333	75,888	425,910	-	446,074
185	27,333	75,888	425,910	275,020	721,094
\$ 30,805	\$ 27,333	\$ 75,888	\$ 469,737	\$ 275,020	\$ 768,379

CITY OF CHARLEVOIX, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED MARCH 31, 2004

	Special Revenue Fund	Capital Projects Funds			
	Airport	Fire Truck and Ambulance	Marina Improvements	Industrial Park	Depot Beach
Revenues					
Charges for services	\$ 97,996	\$ -	\$ -	\$ -	\$ -
Rents and royalties	32,286	-	-	-	-
Interest	421	991	9	3,399	135
Other revenue	-	-	-	-	-
Total revenues	130,703	991	9	3,399	135
Expenditures					
Current					
Public works	202,298	-	-	-	-
Debt service					
Principal	8,917	-	-	-	-
Interest and fiscal charges	9,246	-	-	-	-
Total expenditures	220,461	-	-	-	-
Revenues over (under) expenditures	(89,758)	991	9	3,399	135
Other financing sources (uses)					
Transfers in	-	25,500	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	25,500	-	-	-
Net change in fund balances	(89,758)	26,491	9	3,399	135
Fund balances, beginning of year	109,922	117,050	-	175,420	-
Fund balances, end of year	\$ 20,164	\$ 143,541	\$ 9	\$ 178,819	\$ 135

Capital Projects Funds				Permanent Fund	Total Nonmajor Governmental Funds
Lake Michigan Beach	Mt. McSauba Improvements	Downtown Parking	Total	Cemetery Care	
\$ -	\$ -	\$ -	\$ -	\$ 3,850	\$ 101,846
-	12,451	-	12,451	-	44,737
185	198	166	5,083	2,632	8,136
-	12,861	-	12,861	-	12,861
185	25,510	166	30,395	6,482	167,580
-	-	-	-	-	202,298
-	-	-	-	-	8,917
-	-	-	-	-	9,246
-	-	-	-	-	220,461
185	25,510	166	30,395	6,482	(52,881)
-	-	-	25,500	-	25,500
-	(19,600)	-	(19,600)	-	(19,600)
-	(19,600)	-	5,900	-	5,900
185	5,910	166	36,295	6,482	(46,981)
-	21,423	75,722	389,615	268,538	768,075
\$ 185	\$ 27,333	\$ 75,888	\$ 425,910	\$ 275,020	\$ 721,094

CITY OF CHARLEVOIX, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
AIRPORT FUND**

FOR THE YEAR ENDED MARCH 31, 2004

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under) Final Budget
Revenues				
State revenue	\$ 815,700	\$ 815,700	\$ -	\$ (815,700)
Charges for services	73,800	84,100	97,996	13,896
Interest	600	600	421	(179)
Rents and royalties	39,500	31,463	32,286	823
Total revenues	929,600	931,863	130,703	(801,160)
Expenditures				
Public works	1,033,100	1,015,074	202,298	(812,776)
Debt service				
Principal	8,900	8,917	8,917	-
Interest and fiscal charges	9,200	9,246	9,246	-
Total expenditures	1,051,200	1,033,237	220,461	(812,776)
Revenues over (under) expenditures	(121,600)	(101,374)	(89,758)	11,616
Other financing sources (uses)				
Transfers out	(100)	(200)	-	(200)
Net change in fund balance	(121,700)	(101,574)	(89,758)	11,816
Fund balance, beginning of year	109,922	109,922	109,922	-
Fund balance, end of year	\$ (11,778)	\$ 8,348	\$ 20,164	\$ 11,816

CITY OF CHARLEVOIX, MICHIGAN
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS

MARCH 31, 2004

	Employee Fringe Benefits	Motor Vehicle	DPW Site	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 147,606	\$ 78,233	\$ -	\$ 225,839
Investments	35,000	15,336	50,000	100,336
Accounts receivable	2,360	75	-	2,435
Interest receivable	416	201	596	1,213
Inventory	-	2,564	-	2,564
Total current assets	185,382	96,409	50,596	332,387
Noncurrent assets				
Capital assets, net	-	665,597	152,199	817,796
Total assets	185,382	762,006	202,795	1,150,183
Liabilities				
Current liabilities				
Accounts payable	24,426	5,779	-	30,205
Accrued expenses	12,830	2,797	-	15,627
Due to other funds	-	-	202,023	202,023
Total current liabilities	37,256	8,576	202,023	247,855
Noncurrent liabilities				
Compensated absences	148,434	-	-	148,434
Total liabilities	185,690	8,576	202,023	396,289
Net assets (deficit)				
Invested in capital assets	-	665,597	152,199	817,796
Unrestricted	(308)	87,833	(151,427)	(63,902)
Total net assets (deficit)	\$ (308)	\$ 753,430	\$ 772	\$ 753,894

CITY OF CHARLEVOIX, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS
INTERNAL SERVICE FUNDS**

FOR THE YEAR ENDED MARCH 31, 2004

	Employee Fringe Benefits	Motor Vehicle	DPW Site	Total
Operating revenues				
Charges for services	<u>\$ 1,258,992</u>	<u>\$ 439,883</u>	<u>\$ 122,400</u>	<u>\$ 1,821,275</u>
Operating expenses				
Personal services	1,265,789	115,367	-	1,381,156
Contractual services	43,597	15,527	-	59,124
Supplies	-	48,132	-	48,132
Utilities	-	9,441	-	9,441
Repairs and maintenance	-	54,488	-	54,488
Depreciation	-	145,171	11,326	156,497
Miscellaneous	5,273	-	-	5,273
Total operating expenses	<u>1,314,659</u>	<u>388,126</u>	<u>11,326</u>	<u>1,714,111</u>
Operating income (loss)	<u>(55,667)</u>	<u>51,757</u>	<u>111,074</u>	<u>107,164</u>
Nonoperating revenues (expenses)				
Interest revenue	1,601	719	10,306	12,626
Other revenue	11,197	-	-	11,197
Gain on disposal of capital assets	-	33,434	-	33,434
Total nonoperating revenues (expenses)	<u>12,798</u>	<u>34,153</u>	<u>10,306</u>	<u>57,257</u>
Income (loss) before transfers	<u>(42,869)</u>	<u>85,910</u>	<u>121,380</u>	<u>164,421</u>
Transfers				
Transfers in	42,561	-	13,400	55,961
Transfers (out)	-	(47,200)	(1,265,000)	(1,312,200)
Total transfers	<u>42,561</u>	<u>(47,200)</u>	<u>(1,251,600)</u>	<u>(1,256,239)</u>
Change in net assets	<u>(308)</u>	<u>38,710</u>	<u>(1,130,220)</u>	<u>(1,091,818)</u>
Net assets, beginning of year	-	714,720	1,130,992	1,845,712
Net assets (deficit), end of year	<u>\$ (308)</u>	<u>\$ 753,430</u>	<u>\$ 772</u>	<u>\$ 753,894</u>

CITY OF CHARLEVOIX, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED MARCH 31, 2004

	Employee Fringe Benefits	Motor Vehicle	DPW Site	Total
Cash flows from operating activities				
Cash received from interfund services	\$ 1,284,412	\$ 439,883	\$ 122,400	\$ 1,846,695
Cash payments to employees	(1,244,794)	(115,871)	-	(1,360,665)
Cash payments to suppliers for goods and services	(24,657)	(133,811)	-	(158,468)
Net cash provided by (used in) operating activities	14,961	190,201	122,400	327,562
Cash flows from non-capital financing activities				
Miscellaneous income	11,197	-	-	11,197
Receipt of amounts due from other funds	65,596	-	-	65,596
Proceeds from amounts due to other funds	-	-	202,023	202,023
Repayment of amount due to other funds	-	(2,388)	-	(2,388)
Transfers in from other funds	42,561	-	13,400	55,961
Transfers out to other funds	-	(47,200)	(1,265,000)	(1,312,200)
Net cash provided by (used in) operating activities	119,354	(49,588)	(1,049,577)	(979,811)
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	-	50,484	-	50,484
Purchase of capital assets	-	(138,853)	-	(138,853)
Net cash provided by (used in) capital and related financing activities	-	(88,369)	-	(88,369)
Cash flows from investing activities				
Proceeds from matured investments	-	-	250,000	250,000
Purchase of investments	-	(336)	-	(336)
Investment income	1,493	753	10,172	12,418
Net cash provided by (used in) investing activities	1,493	417	260,172	262,082
Net increase (decrease) in cash and cash equivalents	135,808	52,661	(667,005)	(478,536)
Cash and cash equivalents, beginning of year	11,798	25,572	667,005	704,375
Cash and cash equivalents, end of year	\$ 147,606	\$ 78,233	\$ -	\$ 225,839
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ (55,667)	\$ 51,757	\$ 111,074	\$ 107,164
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	-	145,171	11,326	156,497
Changes in assets and liabilities				
Accounts receivable	25,420	-	-	25,420
Inventory	-	2,129	-	2,129
Accounts payable and accrued liabilities	45,208	(8,856)	-	36,352
Net cash provided by (used in) operating activities	\$ 14,961	\$ 190,201	\$ 122,400	\$ 327,562

CITY OF CHARLEVOIX, MICHIGAN
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
CURRENT TAX COLLECTION FUND
FOR THE YEAR ENDED MARCH 31, 2004

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Assets				
Cash	<u>\$ 130,892</u>	<u>\$ 8,150,453</u>	<u>\$ (8,150,890)</u>	<u>\$ 130,455</u>
Liabilities				
Undistributed receipts	<u>\$ 130,892</u>	<u>\$ 8,150,453</u>	<u>\$ (8,150,890)</u>	<u>\$ 130,455</u>

CITY OF CHARLEVOIX, MICHIGAN
BALANCE SHEET AND STATEMENT OF NET ASSETS
COMPONENT UNIT

MARCH 31, 2004

	Downtown Development Authority	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 590,143	\$ -	\$ 590,143
Accounts receivable	14,119	-	14,119
Taxes receivable	1,308	-	1,308
Due from other governmental units	3,500	-	3,500
Other assets	-	45,193	45,193
Capital assets not being depreciated	-	1,413,413	1,413,413
Capital assets, net of depreciaton	-	4,663,350	4,663,350
Total assets	\$ 609,070	6,121,956	6,731,026
Liabilities			
Accounts payable	\$ 19,459	-	19,459
Accrued liabilities	-	16,595	16,595
Noncurrent liabilities			
Long term debt due within one year	-	242,000	242,000
Long term debt due in more than one year	-	3,683,431	3,683,431
Total liabilities	19,459	3,942,026	3,961,485
Fund balance			
Unreserved	589,611	(589,611)	-
Total liabilities and fund balance	\$ 609,070		
Net assets			
Invested in capital assets, net of related debt		2,151,332	2,151,332
Unrestricted		618,209	618,209
Total net assets		\$ 2,769,541	\$ 2,769,541

CITY OF CHARLEVOIX, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES COMPONENT UNIT

FOR THE YEAR ENDED MARCH 31, 2004

	Downtown Development Authority	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 716,565	\$ -	\$ 716,565
Rents	33,093	-	33,093
Other revenues	5,359	-	5,359
Interest	6,265	-	6,265
Total revenues	761,282	-	761,282
Expenditures / expenses			
Current			
Other functions	905,151	(363,332)	541,819
Debt service			
Principal	274,307	(274,307)	-
Interest and fiscal charges	121,163	(121,163)	-
Refunding bond issuance costs	45,981	(45,981)	-
Total expenditures / expenses	1,346,602	(804,783)	541,819
Revenues over (under) expenditures	(585,320)	804,783	219,463
Other financing sources (uses)			
Refunding bonds issued	2,925,000	(2,925,000)	-
Payments of refunded bond	(2,286,659)	2,286,659	-
Total other financing sources (uses)	638,341	(638,341)	-
Change in fund balance / net assets	53,021	166,442	219,463
Fund balance / net assets, beginning of year	536,590	2,013,488	2,550,078
Fund balance / net assets, end of year	\$ 589,611	\$ 2,179,930	\$ 2,769,541



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

July 22, 2004

The Honorable Mayor and
Members of the City Council
City of Charlevoix
Charlevoix County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Charlevoix, Michigan*, as of and for the year ended March 31, 2004, which collectively comprise the *City of Charlevoix's* basic financial statements and have issued our report thereon dated July 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the *City of Charlevoix, Michigan*, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Charlevoix, Michigan*, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the *City of Charlevoix, Michigan* in a separate letter dated July 22, 2004.

This report is intended for the information and use of management, members of the City Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.